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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

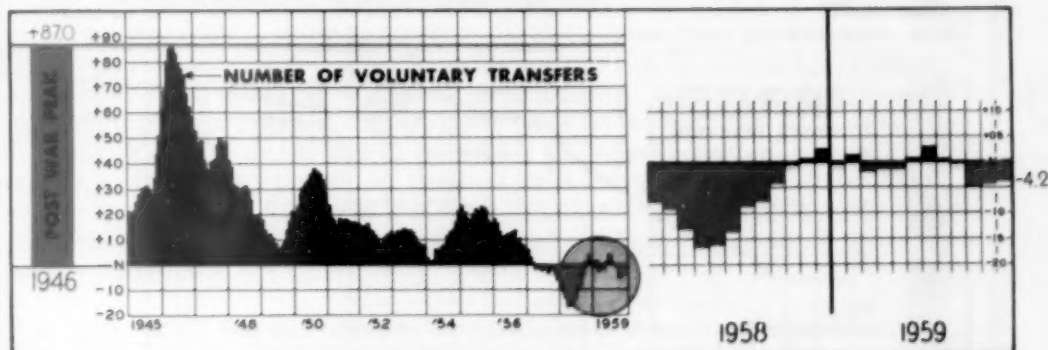
THE POSTWAR REAL ESTATE MARKET

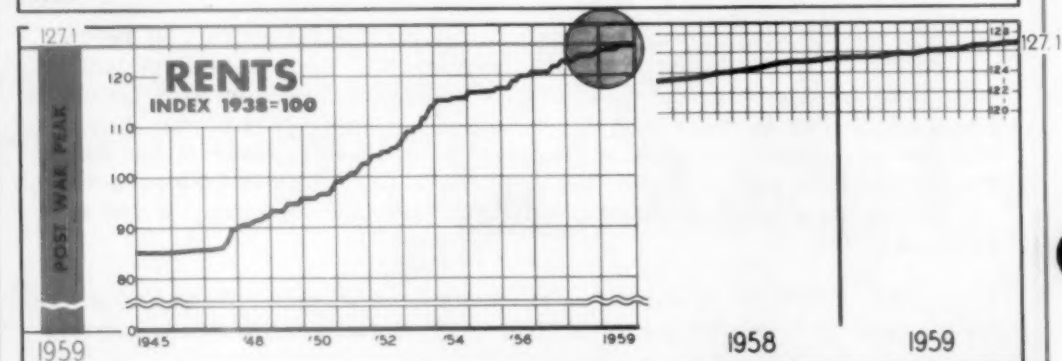
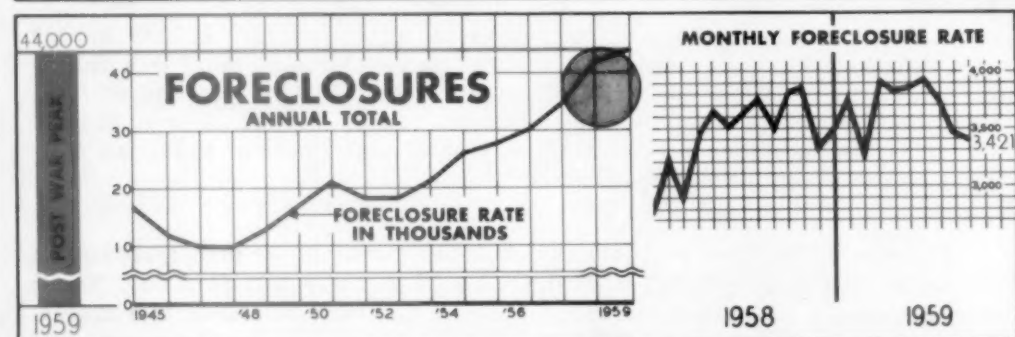
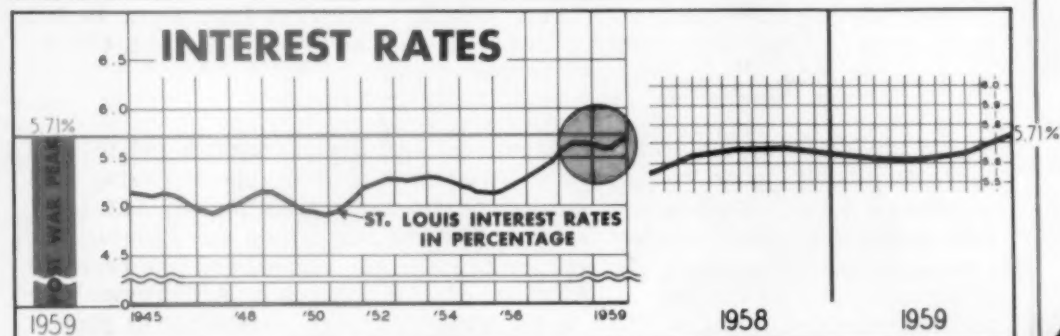
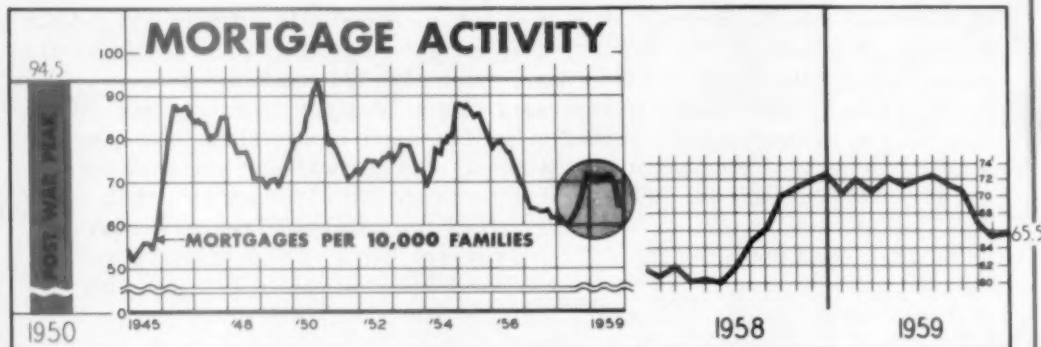
IT has been almost 15 years since the last shot was fired in World War II. In this bulletin we have summarized the postwar developments in real estate. The index of general Real Estate Activity, based on the number of voluntary real estate transfers per 10,000 families, rose to its postwar peak of 87 percent above the long-term computed normal in 1946. Since that time, real estate activity has declined to the postwar low of 16.6 percent below normal in April 1958. Today activity has increased and has been fluctuating closely along the normal long-term trend.

Mortgage activity, the number of mortgages recorded per 10,000 families, rose to its postwar peak of 94.5 in September 1950. From that time, mortgage activity fell to the low of 60.1 in May 1958, and has since risen to 65.5 mortgages recorded per 10,000 families.

The big question in real estate during the last 12 months has been whether tight money would dampen real estate activity, and, if so, how much. The mortgage interest chart on page 66 shows the average recorded interest rate

REAL ESTATE ACTIVITY





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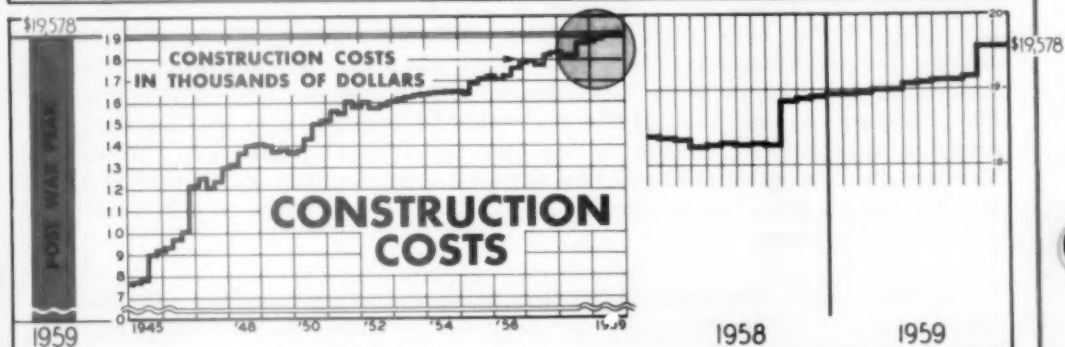
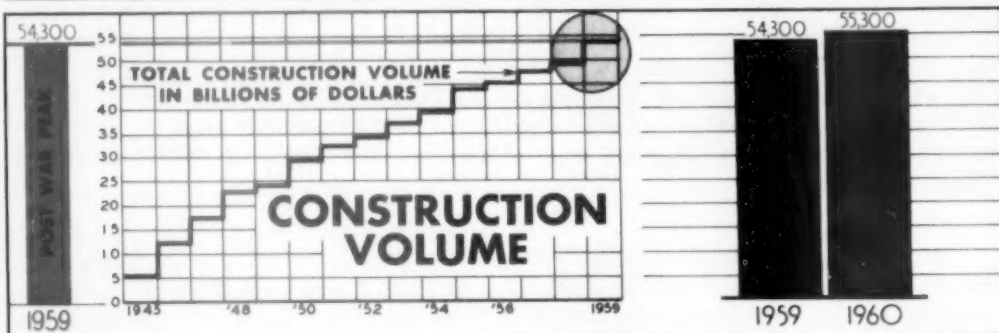
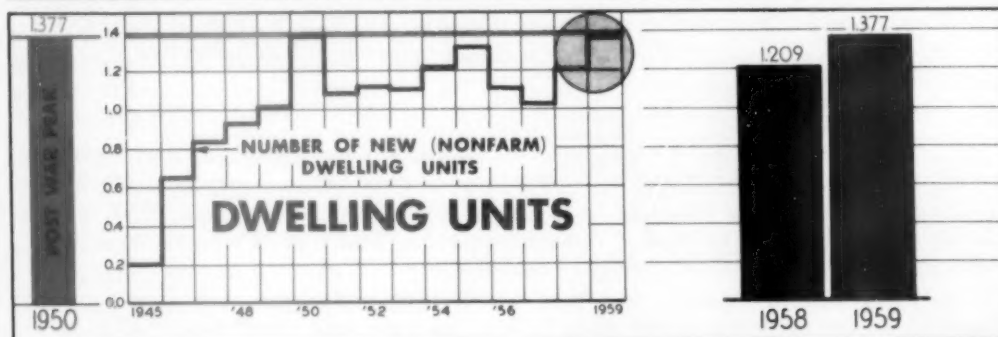
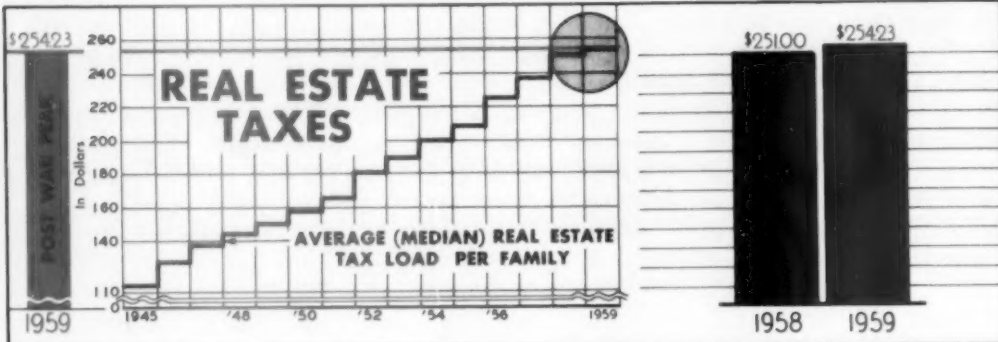
on mortgages in St. Louis. Since it is the recorded rate, it does not reflect the large discounts of 5 to 10 points now being requested on VA and FHA mortgages, which have fixed maximum legal rates of 5-1/4 and 5-3/4 percent. The St. Louis rate, also, tends to represent single-family home mortgages, since the majority of mortgages recorded in St. Louis are of this kind. The postwar peak is the current average of 5.71 percent; the postwar low was 4.93 percent in 1950. The outlook for 1960 is for a continued high interest rate with some easing of the availability of funds because of the expected Treasury cash surplus during the first 6 months. If the Treasury has a cash surplus, it will not have to enter the money market for new funds, as it did in 1959 for about \$8 billion.

Foreclosures have been increasing steadily since 1946 from about 10,000 per year to 44,000. This is still very low in comparison with the 252,400 experienced in 1933.

The rent paid by the average city worker has been computed and indexed by the Bureau of Labor Statistics. We have charted these figures, using 1938 as the base year. The postwar peak is the latest available figure, 127.1 for December 1959. The important factor in postwar rent trends was Federal rent control from 1942 to 1953. In 1947 the original Act expired and was replaced by the more liberal Housing and Rent Act of 1947. The new Act provided for rent increases on rental units when the frozen rent was considered to place a hardship on the property owner. Amendments in 1948 to the Act decontrolled new housing and permitted rent increases in certain cases. In 1949 the Act was extended again. In addition to several minor changes, there was an important amendment allowing Federal control to be ended by State law or findings of no housing shortage by municipalities. These changes explain, in part, the increases in the rent index that started to take place in 1947, as indicated on our chart.

The average (median) real estate tax load per family in the principal cities of the United States now stands at \$254.23. In 1946 it was only \$128.28. These increases in the real estate tax load have been the result mainly of two causes. People are demanding more and better services from their government, and the State and Federal governments have taken most of the sources of revenue, leaving the property tax as the local governments' main source of income. Since 1946 local government expenditures have increased from \$7.9 billion to \$29.5 billion, an increase of 274 percent. Of course, part of this increase was due to increasing prices or the loss in purchasing power of the dollar. The last chart on page 71 shows that if we consider a dollar in 1939 equal to its full purchasing power of 100 cents, a 1959 dollar would equal only 48 cents, or a loss of 52 percent.

In 1959, 1,377,000 nonfarm dwelling units were started. This was just below the peak of 1,396,000 starts in 1950, and far above the low years immed-



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iately following World War II. A new trend, being watched by real estate analysts, is the number of multifamily units being built. In 1959, approximately 211,000 private multifamily units were built, which represented 16 percent of total private starts. This was 49,000 more multifamily units than were started in 1949, the previous postwar high. Moreover, the units started last year did not have the benefit of the FHA 608 provisions, as they did in 1949. There has been a boom in residential building since 1949, with at least 1 million starts each year. Furthermore, next year is expected to finish with about 1,200,000 starts in spite of the high interest rates on mortgages and tight money.

The total dollar volume of new public and private construction in 1959 was \$54.3 billion. In terms of dollars of 1947-49 purchasing power, the volume reached only \$38.4 billion. The lowest years in the postwar period were 1945-46, the period of conversion from war to peacetime production. It is expected that 1960 will show the same increases as in the last few years, and that the total volume of new construction will increase 1 or 2 percent to \$55.3 billion.

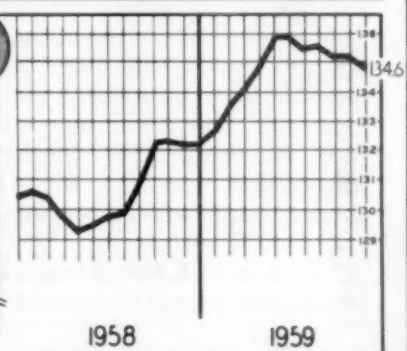
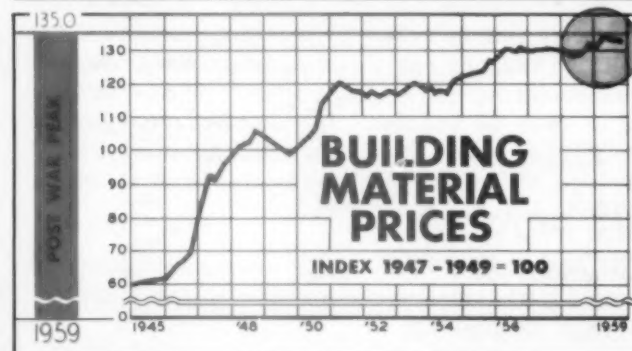
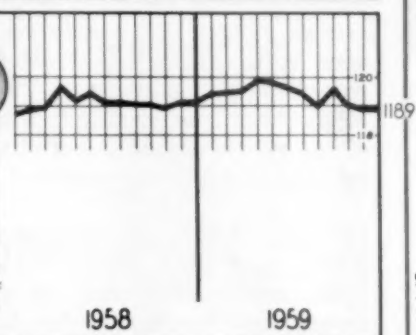
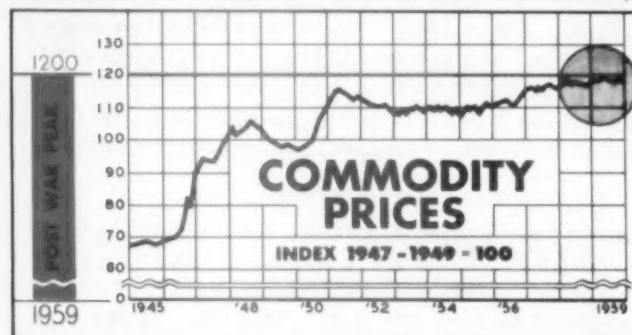
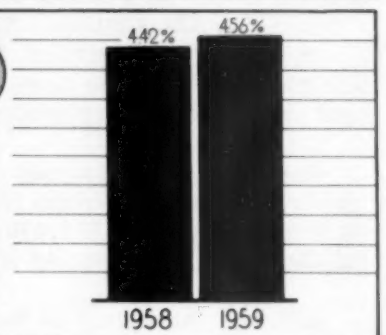
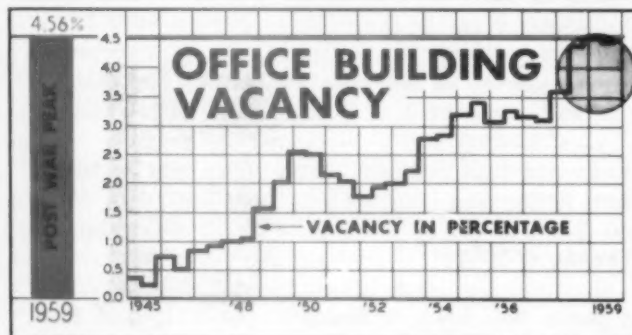
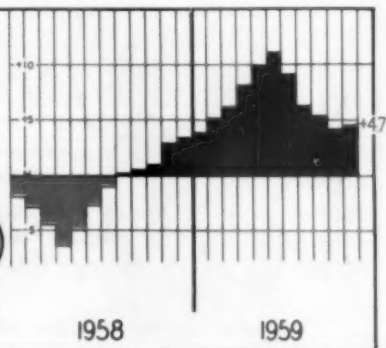
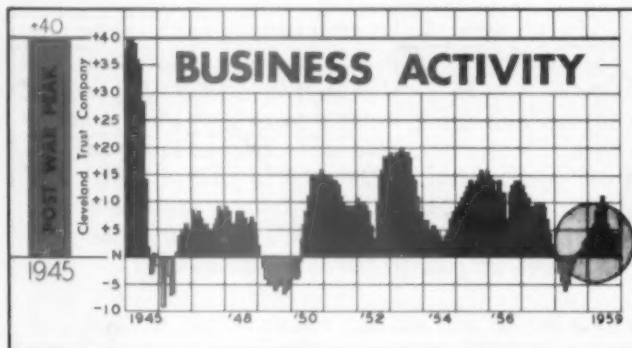
One of the easiest trends to forecast is building costs. The cost of building our standard six-room frame house has increased steadily from about \$9,000 in 1945-46 to \$19,578 in December 1959. With continued inflation, building costs will probably increase in 1960.

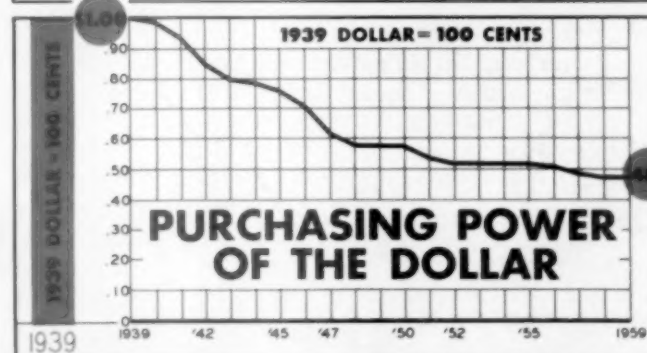
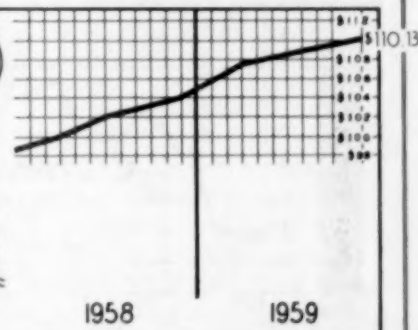
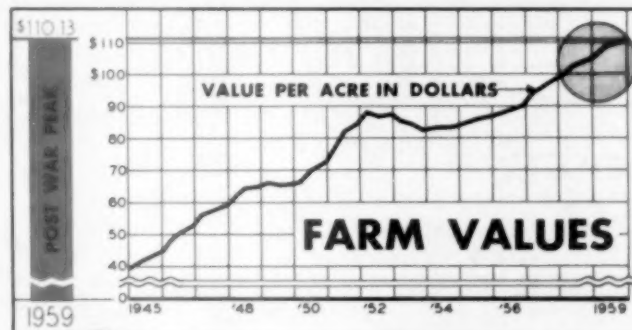
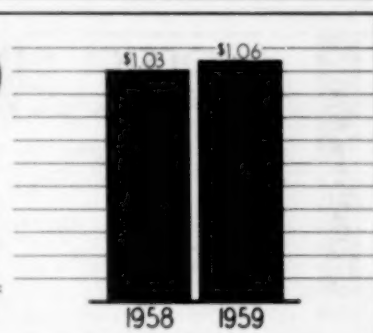
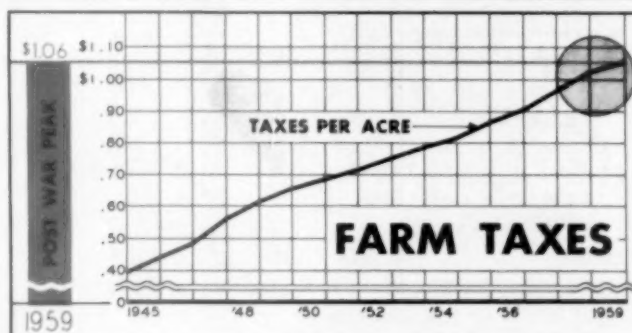
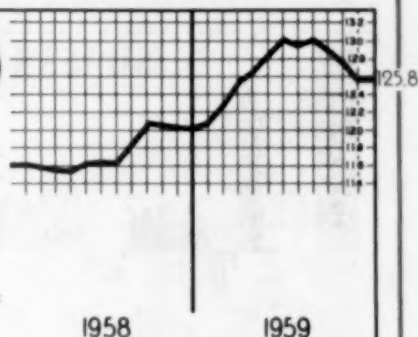
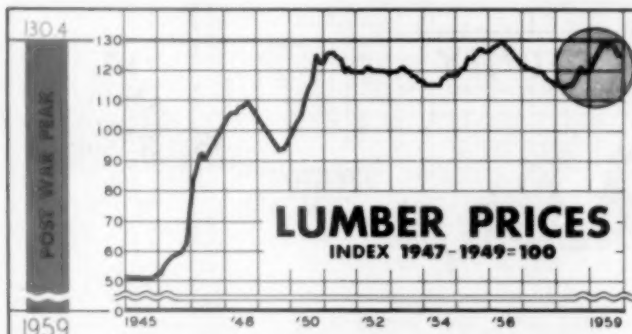
Although the timing of the peaks and lows in Business Activity and Real Estate Activity seems to be different, it cannot be said that each follows its own course without influencing the other. Since 1945, Business Activity, as measured by the Cleveland Trust Company, has dropped below the long-term computed normal three times. These periods occurred in 1945-46, 1949-50, and 1958. After increasing to a high of 11.2 percent above the normal in the middle of 1959, Business Activity has declined to only 4.7 percent above the normal, as of November 1959.

Continued prosperity has made the demand for office building space keep pace with the increasing supply. From around 2 percent in 1945, the vacancy rate, as computed by the National Association of Building Owners and Managers, has increased to 4.50 percent. This rate is not high and has not dampened the continued increases in office rents. It is very low when one considers the office vacancy rate of 1934 - 27 percent. Rents did not begin to decline until 1932, when the vacancy rate reached 20 percent. Not all cities in the United States are experiencing this low rate. The following cities have a vacancy rate of over 10 percent: Dayton, Fresno, Kansas City, Oklahoma City, Omaha, Philadelphia, St. Louis, San Antonio, Tulsa, and Toronto, Canada. If the trend of the last few years continues, office vacancy rates will increase in 1960.

Wholesale building material prices have risen much more than wholesale commodity prices in general since 1945. The wholesale commodity price in-

(cont. on page 72)





PURCHASING POWER OF DOLLAR
1939 Dollar = 100 Cents

1939 . . .	\$1.00	1950 . . .	\$.58
1940 . . .	.99	1951 . . .	.54
1941 . . .	.94	1952 . . .	.52
1942 . . .	.85	1953 . . .	.52
1943 . . .	.80	1954 . . .	.52
1944 . . .	.79	1955 . . .	.52
1945 . . .	.77	1956 . . .	.51
1946 . . .	.71	1957 . . .	.49
1947 . . .	.62	1958 . . .	.48
1948 . . .	.58	1959 . . .	.48
1949 . . .	.58		

(cont. from page 69)

dex has risen from 90.8 in November 1946 to 118.9 in November 1959; the wholesale building material price index has risen from 75.8 in November 1946 to 134.6 in November 1959. Both increases show the impact of inflation on wholesale prices. Wholesale lumber prices have not risen as much as building material prices. They have increased from 84.5 in January 1947 to 125.8 in December 1959. Lumber prices, however, have fallen from a postwar high of 130.4 in June 1959. The decline in lumber prices has been a result of too much production for this season of the year.

Just as urban real estate taxes have been increasing, farm taxes per acre are at their highest in the postwar period. They have increased from \$.49 per acre in 1946 to \$1.06 per acre in 1959. The reason for this is increased government expenditures because of inflation and the demand for expanding government services. If government expenditures continue to rise, farm taxes per acre will continue upward.

The average value of farms per acre has reached a new high of \$110.13. In 1946, the average value of farms was only \$53.02 per acre. There have been several reasons for this increase: inflation, a relatively high level of net income from farming compared with past periods, the need to enlarge existing farms in order to use more efficiently the new machinery, and the expansion of metropolitan areas. In 1945-46 net income to agriculture was about 24 percent of the value of all farm real estate. Although gross farm income has remained high, greater expenditures have made net income to farmers decline from the 1947 high. Net Farm Income, however, is still at a relatively high level. Today net income to agriculture is only 9.7 percent of the value of all farm real estate because of the generally declining net farm income and the rising farm real estate values. A recent survey made by the Wall Street Journal shows that sales of farm real estate are very slow, and that many expect this to be followed by price declines in a few years. It is estimated that in 1959 farm real estate owners made only 3 percent on their investment, excluding investment in machinery, compared with 6 percent and 12 percent, which farm real estate owners realized in 1958 and 1948. Three percent is less than can be earned on a riskless government bond. Therefore, we should see farm real estate values level off in 1960.

The common theme in the postwar real estate market has been inflation. If the government continues to allow the supply of money and credit to grow faster than production, we will be writing about inflation again next year.

